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105TH CONGRESS
2D SESSION

H. R. 3287

To authorize United States participation in a quota increase and the New Arrangements to Borrow of the International Monetary Fund, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 26, 1998

Mr. FRANK of Massachusetts (for himself, Mr. BONIOR, Ms. WATERS, Ms. PELOSI, and Mr. TORRES) introduced the following bill; which was referred to the Committee on Banking and Financial Services

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A BILL

To authorize United States participation in a quota increase and the New Arrangements to Borrow of the International Monetary Fund, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''International Monetary Fund Reform and Authorization Act of 1998''.

SEC. 2. FINDINGS.

The Congress finds that—

(1) the International Monetary Fund (IMF) was conceived at Bretton Woods, New Hampshire,

to promote a sound and open world economy and a stable international financial system;

(2) the IMF was founded fifty years ago with its core mission focused on providing advice on macroeconomic and exchange rate policy and highly conditional financial assistance, including appropriate economic and governance reforms, to countries facing balance of payments or liquidity problems;

(3) the IMF has advanced beyond its core mission and now concerns itself with structural redesign of industrial policy and labor market interventions, both of which have profound social and political ramifications;

(4) the IMF has intervened in the private credit markets in situations of extreme uncertainty and crisis to restore investor and lender confidence which has a consequence of potentially relieving such lenders and investors of the negative consequences of imprudent lending and investment decisions;

(5) the expanded conditionality which accompanies IMF funding has profound domestic consequences in the United States;

(6) the United States, as the leading power of the post-cold-war world, has a greater interest than any other country in a strengthened IMF that

multilateralizes the financial support for ongoing economic reforms in countries important to United States interests and that can respond to threats to the international financial system;

(7) the United States is the only country with veto power over major IMF decisions;

(8) to sustain its capabilities, the IMF needs to sustain its strength relative to a rapidly expanding global economy characterized by exponential growth of global capital markets;

(9) the United States financial commitment to the IMF leverages several times as much from other countries, and its general resource financing is not scored as a budgetary outlay;

(10) the ongoing currency and banking crisis in the Far East has affected United States financial markets and may result in a decline in United States economic growth by as much as one and one-half percent, and the United States has a vested economic and national security interest in utilizing the IMF and other multilateral mechanisms to help stabilize certain Asian economies;

(11) the United States also has an interest in not contributing to ''moral hazard'', the belief by private investors and lenders that public credit will

be used to bail them out of the consequences of imprudent credit decisions;

(12) in establishing the terms for its financial support, the United States must strike a balance between contributing to the stability of the Asian economies and ensuring that the private creditors who contributed to the crisis by their imprudent lending also make a significant contribution to the resolution of such crisis; and

(13) with respect to some East Asian countries—

(A) the IMF has often imposed a fiscal austerity strategy designed for countries in other parts of the world that follow excessively expansionary fiscal and monetary policies, despite the fact that in the East Asian countries, by the IMF's own account, such policies did not contribute to the financial difficulties faced by such countries;

(B) the rationale for such strategy has been the purported need to attract foreign capital and divert production to export rather than the domestic market;

(C) in the absence of a solution to the short term debt overhang problem which requires a rollover of such short term maturities by the private creditors as an integral part of the IMF program, no interest rate is high enough to attract such capital;

(D) a high interest, fiscal austerity program, combined with industrial restructuring and labor market flexibility measures where they are also a part of an IMF program, may excessively depress the local economy, creating potentially explosive social and political problems;

(E) such a strategy also creates excessive pressure to export and reduce imports, eroding support in the United States for a more open international trading and investment regime, as export markets collapse and a flood of imports puts downward pressure on U.S. wages and employment; and

(F) there is a consequent need for both the IMF and the United States Treasury to fashion programs and policies that are adapted to local conditions and integrate private creditor contributions.

TITLE I—INTERNATIONAL MONETARY FUND

SEC. 101. PARTICIPATION IN QUOTA INCREASE.

The Bretton Woods Agreements Act (22 U.S.C. 286–286mm) is amended by adding at the end the following:

"SEC. 61. QUOTA INCREASE.

"(a) IN GENERAL.—The United States Governor of the Fund may consent to an increase in the quota of the United States in the Fund equivalent to 10,622,500,000 Special Drawing Rights.

"(b) SUBJECT TO APPROPRIATIONS.—The authority provided by subsection (a) shall be effective only to such extent or in such amounts as are provided in advance in appropriations Acts.".

TITLE II—NEW ARRANGEMENTS TO BORROW

SEC. 201. NEW ARRANGEMENTS TO BORROW.

Section 17 of the Bretton Woods Agreements Act (22 U.S.C. 286e–2 et seq.) is amended—

(1) in subsection (a)—

(A) by striking "and February 24, 1983" and inserting "February 24, 1983, and January 27, 1997"; and

(B) by striking "4,250,000,000" and inserting "6,712,000,000";

(2) in subsection (b), by striking "4,250,000,000" and inserting "6,712,000,000"; and

(3) in subsection (d)—

(A) by inserting "or the Decision of January 27, 1997," after "February 24, 1983,"; and

(B) by inserting "or the New Arrangements to Borrow, as applicable" before the period at the end.

TITLE III—POLICY PROVISIONS

SEC. 301. ADVOCACY OF CERTAIN POLICIES.

(a) IN GENERAL.—Title XVI of the International Financial Institutions Act (22 U.S.C. 262p–262p–5) is amended—

(1) by redesignating section 1622 as section 1624;

(2) by redesignating section 1621 (as added by section 327 of the Antiterrorism and Effective Death Penalty Act of 1996; 22 U.S.C. 262p–4q) as section 1622, and by relocating such section so that it appears after section 1621 (as added by section 526(e) of Foreign Operations, Export Financing, and Related Programs Supplemental Appropriations Act, 1994; 22 U.S.C. 262p–4p); and

(3) by inserting after section 1622 (as so redesignated by paragraph (2) of this subsection) the following:

"SEC. 1623. ADVOCACY OF CERTAIN POLICIES.

"(a) IN GENERAL.—The United States Government shall employ its best efforts to do the following, and such efforts shall include but not be limited to the Secretary of the Treasury instructing the United States Executive Director at the International Monetary Fund to use the voice and vote of the Executive Director to these ends:

"(1) Make the International Monetary Fund a more effective mechanism for promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through—

"(A) liberalizing the pricing, trade, investments, and exchange rate regimes of countries to open countries to the competitive forces of the global economy;

"(B) privatizing industry to—

"(i) eliminate government monopolies;

"(ii) close loss-making enterprises; and

"(iii) reduce government control over the factors of production; and

"(C) establishing adequate provisions for a social safety net to cushion the effects on workers of unemployment and dislocation.

"(2) Make the International Monetary Fund a more effective mechanism, in concert with appropriate international authorities and the International Bank for Reconstruction and Development, to strengthen financial systems in developing countries and encourage the adoption of sound banking principles and practices.

"(3) Assist the International Monetary Fund to avoid becoming a lender of last resort for private investors, including commercial banks, and accordingly advocate policies which include—

"(A) strengthening crisis prevention and early warning signals through improved and more effective surveillance of the national economic policies and financial market developments of countries, and fuller disclosure of such information to market participants;

"(B) recognition that the unregulated flow of capital without regard to maturity structure has contributed to financial instability and crisis, and consideration of measures that discourage inappropriate maturities in private market borrowing;

"(C) accelerating work on strengthening financial systems in emerging market economies so as to reduce the risk of financial crises;

"(D) consideration of provisions in debt contracts that would foster dialogue and consultation between a sovereign debtor and its private creditors, and among those creditors;

"(E) consideration by the Executive Board of the International Monetary Fund of extending the scope of its policy on lending to members in arrears so as to encourage and expedite such a dialogue and consultation;

"(F) intensified consideration of mechanisms to facilitate orderly workout mechanisms for countries experiencing debt or liquidity crises; and

"(G) the International Monetary Fund avoiding the provision of funding to countries experiencing a financial crisis resulting from imprudent borrowing without a significant contribution by the private creditors, investors, and banks which had extended such credits.

"(4) Make the International Monetary Fund a more effective mechanism for promoting good governance principles within recipient countries by fostering structural reforms that reduce opportunities for corruption and bribery.

"(5) Structure the International Monetary Fund programs and assistance so that governments which draw on the International Monetary Fund channel public funds away from unproductive purposes, including excessive military spending, and toward investment in human and physical capital as well as social programs to protect the neediest and promote social equity.

"(6) Structure International Monetary Fund programs and assistance so that—

"(A) recipient governments commit to affording workers the right to exercise internationally recognized core worker rights, including the right of free association and collective bargaining through unions of their own choosing;

"(B) measures designed to facilitate labor market flexibility are consistent with such core worker rights; and

"(C) the staff of the International Monetary Fund adequately takes into account the views of the International Labor Organization, particularly with respect to the importance of labor market flexibility measures in reducing unemployment in recipient countries, and the impact such measures may have on core worker rights in such countries.

"(7) Structure International Monetary Fund programs and assistance so as not to exacerbate or precipitate ethnic strife within a recipient country.

"(8) Work with the International Monetary Fund to incorporate the recognition that macroeconomic developments and policies can affect and be affected by environmental conditions and policies, including by working independently and with the multilateral development banks to encourage countries to correct market failures and to adopt appropriate environmental policies in support of macroeconomic stability and sustainable development.

"(9) Do the maximum possible as a member state to facilitate greater International Monetary Fund transparency, including by enhancing accessibility of the International Monetary Fund and its staff, fostering a more open release policy toward working papers, past evaluations, and other International Monetary Fund documents; seeking to publish all letters of intent to the International Monetary Fund, and establishing a more open release policy regarding Article IV consultations.

"(10) Facilitate greater International Monetary Fund accountability and enhance International Monetary Fund self-evaluation by establishing an operations evaluation department modeled on the experience of the International Bank for Reconstruction and Development, guided by such key principles as usefulness, credibility, transparency, and independence.

"(11) Coordinate with the International Bank for Reconstruction and Development and other international financial institutions (as defined in section 1701(c)(2)) in advancing credit to small businesses, including microenterprise lending.

"(b) COORDINATION WITH OTHER EXECUTIVE DEPARTMENTS.—To the extent that it would assist in achieving the goals described in subsection (a), the Secretary of the Treasury shall pursue the goals in coordination with the Secretary of State, the Secretary of Labor, the Secretary of Commerce, the Administrator of the Environmental Protection Agency, the Administrator of the Agency for International Development, and the United States Trade Representative.

"(c) FUNDING CONDITIONED ON ESTABLISHMENT IN THE TREASURY DEPARTMENT OF PERMANENT IMF ADVISORY COMMITTEE.—

"(1) IN GENERAL.—No officer or employee of the Federal Government may, directly or indirectly, provide any Federal funds to or for the benefit of the International Monetary Fund unless the Secretary of the Treasury has established an International Monetary Fund Advisory Committee (in this paragraph referred to as the 'Committee') that meets the following requirements:

"(A) MEMBERSHIP.—The Committee shall consist of 12 members appointed by the Secretary of the Treasury, after appropriate consultations with the relevant organizations, as follows:

"(i) 3 members shall be representatives from organized labor.

"(ii) 3 members shall be representatives from banking.

"(iii) 3 members shall be representatives from manufacturing and industry.

"(iv) 3 members shall be representatives from nongovernmental environmental and human rights organizations.

"(B) DUTIES.—Not less frequently than every 6 months, the Committee shall meet to review individual country International Monetary Fund programs, the conditionality attached or proposed to be attached to such programs, and the actual or proposed position of the United States regarding such programs, as communicated by the United States Executive Director at the International Monetary Fund, for the purpose of advising the Secretary of the Treasury on the extent to which individual country International Monetary Fund programs—

"(i) reflect an appropriate balance among economic growth, fiscal responsibility, and social equity;

"(ii) do not, in the interests of attracting private capital, increase the 'moral hazard' of 'bailing out' commercial lenders from imprudent lending decisions;

"(iii) ensure that labor market flexibility measures do not undermine core worker rights, particularly the right of free association and collective bargaining, and address directly any abuse of such rights; and

"(iv) do not undermine sustainable development or environmental protections.

"(C) CHAIRMAN.—The Committee may not meet or continue a meeting unless the meeting is chaired by the Secretary of the Treasury, the Deputy Secretary of the Treasury, or an Under Secretary of the Treasury designated by the Secretary.

"(2) INAPPLICABILITY OF TERMINATION PROVISION OF THE FEDERAL ADVISORY COMMITTEE ACT.—Section 14(a)(2) of the Federal Advisory Committee Act shall not apply to an entity established pursuant to paragraph (1) of this subsection.".

TITLE IV—REPORTS TO CONGRESS

SEC. 401. REPORT TO CONGRESS.

(a) IN GENERAL.—The Secretary of the Treasury shall submit a semi-annual report to Congress on the status of International Monetary Fund programs linked to official United States government financing.

(b) CONTENTS OF REPORT.—With respect to each program, the report shall include the following:

(1) Whether private creditors have agreed to—

(A) extend the maturities on outstanding indebtedness; or

(B) additional measures such as a provision of new credits.

(2) Whether private creditor agreements constitute an adequate contribution by such creditors to the resolution of the problem that the International Monetary Fund Program addresses.

(3) Whether International Monetary Fund involvement in labor market flexibility measures has a negative impact on core worker rights, particularly the rights of free association and collective bargaining.

(4) A description of any abuses of core worker rights and how the International Monetary Fund addressed such abuses.

(5) Whether the program adequately balances the need for austerity, economic growth, and social equity.

(6) Whether the program adequately accounts for and addresses the social and political consequences in a debtor country of the implementation

of measures agreed to by the country authorities and the International Monetary Fund, particularly industrial restructuring and labor market flexibility measures.

(7) What financial measures have been agreed to with a recipient country to ensure that short term capital flows do not continue to cause economic instability.

(8) What measures are included in the program to ensure sustainable development and address environmental devastation.

(9) What results have been obtained from a recipient government with respect to institutional reforms.

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